

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

**Financial Statements**

**Berrien Mental  
Health Authority**

**Benton Harbor, Michigan**

**September 30, 2007**



Berrien Mental Health Authority  
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## **INDEPENDENT AUDITOR'S REPORT**

Berrien Mental Health Authority  
Benton Harbor, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Berrien Mental Health Authority (the Authority), as of and for the year ended September 30, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Authority as of September 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2008, on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Authority. The other supplementary information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Roslund, Prestage & Co, PC*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

March 10, 2008

## **MANAGEMENT'S DISCUSSION and ANALYSIS**



# **BERRIEN MENTAL HEALTH AUTHORITY**

## **Management's Discussion and Analysis**

*For the year ended September 30, 2007*

This section of the Berrien Mental Health Authority (BMHA) annual financial report presents management's discussion and analysis of financial performance for the year ended September 30, 2007. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and to identify significant changes in financial position and results of operations. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

The Michigan Department of Community Health (MDCH) contracts for Medicaid specialty supports and services through designated Prepaid Inpatient Health Plans (PIHPs) in regional geographic areas. Summit Pointe (the Community Mental Health Authority of Calhoun County) is the designated Medicaid PIHP for a region consisting of Barry, Branch, Berrien, Calhoun, and Van Buren counties. BMHA is affiliated with and subcontracts for Medicaid funding through Summit Pointe, rather than directly with the state. State general fund revenue and other grants and earned contracts continue to be sourced directly from the state.

## **FINANCIAL HIGHLIGHTS**

1. Operating results showed a surplus of \$561 thousand.
2. At the end of fiscal 2005, \$367 thousand of unspent Medicaid reinvestment funds were transferred to Summit Pointe. During fiscal 2006, all of the Medicaid Reinvestment funds previously transferred were depleted on specialized programs. (1) Summit Pointe agreed to fund the same specialized programs for fiscal 2007.
3. Unrestricted net assets increased \$402 thousand or 15.3% to \$2.626 million. (2)
4. Outlay for depreciable assets increased \$614 thousand from the prior year, not taking into effect depreciation or the cost of land. The major portion of this was the purchase of a twelve (12) bed licensed residential home. (3) (4)
5. The ability to carry a General Fund - Internal Service Fund (ISF) came to an end on September 30, 2007. While the ability to carry forward a maximum of five percent (5%) of General Fund Revenue continued, there were no surplus funds available as of September 30, 2007. The exhaustion of these two funds combined provided \$394 thousand of additional General Fund Revenue for the 07 fiscal year. (5)
6. In August of 2007, the Michigan Department of Community Health (MDCH) informed the authority it was reducing the General Fund allocation by \$80 thousand increasing the problem of a General Fund deficit.
7. FY '07 saw a 22.5% increase in the utilization of State facilities. Total cost was \$1,102 million while State facility funding was \$848 thousand.



**BERRIEN MENTAL HEALTH AUTHORITY**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2007*

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## **OVERVIEW OF FINANCIAL STATEMENTS**

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are government-wide statements and fund statements.

**Government-wide financial statements** include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when “earned” and expenses recorded when “incurred”, without regard to the timing of cash receipts or disbursement.

The statement of net assets includes all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

**Fund financial statements** contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the government-wide statements. The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as expenditure. Fund financial statements are essentially identical in presentation, format and content to prior year annual financial reports.

Fund financial statements are divided into two categories. These are governmental fund financial statements and proprietary fund financial statements.

Governmental fund financial statements show how the community mental health supports and services programs were financed in the short term as well as what remains for future spending.

Proprietary fund financial statements show internal service funds reserved for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts.

**BERRIEN MENTAL HEALTH AUTHORITY**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2007*

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**SUMMARY OF NET ASSETS**

The following summarizes the assets, liabilities and net assets on a government-wide basis as of September 30, 2007 and 2006.

**Summary of Net Assets**

*As of September 30, 2007 and 2006*  
*(In \$000s)*

	<u>2007</u>	<u>2006</u>	<u>Incr/ (Decr)</u>	<u>% Change</u>
<b><u>Assets</u></b>				
Current assets	\$ 5,790	\$ 6,040	\$ (250)	-4.1%
Restricted assets	506	500	6	1.2%
Capital assets	1,245	682	563	82.6%
<b>Total assets</b>	<b><u>7,541</u></b>	<b><u>7,222</u></b>	<b><u>319</u></b>	<b>4.4%</b>
<b><u>Liabilities</u></b>				
Current liabilities	2,992	3,489	(497)	-14.2%
Noncurrent liabilities	832	577	255	44.2%
<b>Total liabilities</b>	<b><u>3,824</u></b>	<b><u>4,066</u></b>	<b><u>(242)</u></b>	<b>-6.0%</b>
<b><u>Net Assets</u></b>				
Investment in capital assets	688	393	295	75.1%
Restricted for risk management	-	137	(137)	-100.0%
Unrestricted	3,028	2,626	402	15.3%
<b>Total net assets</b>	<b><u>\$ 3,716</u></b>	<b><u>\$ 3,156</u></b>	<b><u>\$ 560</u></b>	<b>17.7%</b>

**Current financial position** is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position.

The current financial position (excess of current assets over current liabilities) was a positive \$2.8 million, an increase of \$247 thousand over the prior year. While this is a positive increase, it is a result of lower cash but also a decrease in current liabilities. (6)

**BERRIEN MENTAL HEALTH AUTHORITY**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2007*

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**Current assets** consist of cash and cash equivalents, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations.

**Current liabilities** include accounts payable, accrued payroll, related taxes, benefits, deferred revenue, amounts due to others and the current portion of long-term debt. At year-end, expenses under the state general fund risk contract were greater than funds provided by \$151 thousand, while in fiscal 2006 expenses were less than funds provided by \$253 thousand. This amount was recorded as deferred revenue in current liabilities to be carried forward and used in fiscal 2007. The entire amount was used in fiscal 2007.

**Restricted assets** consist of cash and accrued interest receivable. These assets are restricted for payment of compensated absences and risk management exposure. Restricted assets of \$506 thousand have increased \$6 thousand from the prior year. (7)

Assets restricted for risk management are related to the risk obligations of the state general fund (formula funds) risk contract. The risk reserve fund of \$137 thousand will be transferred to the general cash account post September 30, 2007.

**Capital assets** consist of property and equipment having an estimated useful life of more than one year. These assets are stated at their original book value, net of accumulated depreciation.

In fiscal 2007, \$704 thousand was expended for capital acquisitions. Depreciation expense was \$140 thousand. The net change in capital assets was an increase of \$563 thousand for the year. (8)

As of year-end, the net book value of capital assets was 41% of the original book value, compared to 29% at the end of the prior year. This percentage is a measure of the relative age of property and equipment. If the percentage is low, it means that property and equipment is relatively old.

**Non-current liabilities** consist of the liability for compensated absences that includes vested vacation and sick pay obligations, the long term portion of the telephone equipment loan, the mortgages on the Niles office building and Scottsdale House and vehicle loans. (9)

**Restricted net assets** include investment in capital assets, net of related debt. This was discussed on page I. The MDCH required the return of all general fund reserves in fiscal year 2007. This was applied to the General Fund overage. (10)

**Unrestricted net assets** at the end of the year were \$3.0 million, an increase of \$402 thousand or 15.3% for the prior year. Unrestricted net assets were 40.2% of total assets, up from 36.4% at the end of the prior year. (11)

**BERRIEN MENTAL HEALTH AUTHORITY**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2007*

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**SUMMARY OF ACTIVITIES**

The following summarizes the revenues, expenses and change in net assets on a government-wide basis for the years ended September 30, 2007 and 2006.

*For the years ended September 30, 2006 and 2005*  
*(In \$000s)*

	<u>2007</u>	<u>2006</u>	<u>Incr/ (Decr)</u>	<u>% Change</u>
<b><u>REVENUE</u></b>				
Medicaid specialty supports and services	\$ 21,868	\$ 20,404	\$ 1,464	7.2%
State general fund priority populations	4,821	5,082	(261)	-5.1%
Adult benefit waiver program	574	554	20	3.6%
MI Child	20	24	(4)	-16.7%
Program service revenue	861	749	112	15.0%
Grants and earned contracts	1,002	899	103	11.5%
County appropriation	500	500	-	0.0%
Interest income	281	244	37	15.2%
Other local income	24	36	(12)	-33.3%
<b>TOTAL REVENUE</b>	<b><u>29,951</u></b>	<b><u>28,492</u></b>	<b><u>1,459</u></b>	<b>5.1%</b>
<b><u>EXPENSE</u></b>				
Contractual providers	16,522	15,373	1,149	7.5%
Program operations	9,254	8,236	1,018	12.4%
Managed care administration	789	782	7	0.9%
General & Board administration	2,221	2,708	(487)	-18.0%
Local funds contributed to State	385	385	-	0.0%
Depreciation	140	178	(38)	-21.3%
<b>TOTAL EXPENSE</b>	<b><u>29,311</u></b>	<b><u>27,662</u></b>	<b><u>1,649</u></b>	<b>6.0%</b>
<b>NET (EXPENSE) OVER REVENUE</b>	<b>640</b>	<b>830</b>	<b>(190)</b>	<b>-22.9%</b>
<b>NET CHANGE IN UNRESTRICTED FUNDS</b>	<b><u>\$ 640</u></b>	<b><u>\$ 830</u></b>	<b><u>\$ (190)</u></b>	<b>-22.9%</b>

**Excess of Revenue over Expense** from activities for the current year was \$640 thousand or 2.1% of revenue. This is a decrease of \$190 thousand or 22.9% from the prior year revenue of \$830 thousand. (12)

**Revenue** for the year was \$29.9 million, an increase of \$1.5 million or 5.1% from the prior year.

**BERRIEN MENTAL HEALTH AUTHORITY**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2007*

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**Medicaid specialty supports and services revenue** of \$21.9 million represents 73.0% of total revenue and increased of \$1.5 million or 7.2% compared to the prior year. This Medicaid subcontract is on a net cost not to exceed basis. There were no unspent Medicaid subcontract funds at the end of fiscal 2007 resulting in no amounts due to the PIHP. (13)

**State general fund priority population revenue** (formula funding) and (categorical) of \$4.8 million represents 16.2% of total revenue and decreased \$265 thousand or 5.2% compared to the prior year. This funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses. There was \$253 thousand carried forward into fiscal 2007 and it was entirely used in fiscal 2008. There was no lapse of state general funds to MDCH in the current year. (14)

**Program service revenue** of \$861 thousand includes charges for services for consumers not covered by Medicaid risk contracts or state general fund revenue sources. This represents 2.9% of total revenue and has increased \$112 thousand or 15.0% over the prior year. This revenue is becoming a significant source of local funds to meet match fund requirements and contribute to increased unrestricted fund balance.

**Grants and earned contract revenue** of \$1.0 million includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 3.3% of total revenue and has increased \$103 thousand or 11.5% over the prior year.

**County appropriation revenue, interest income and other local income** totaling \$805 thousand are available to meet state matching fund requirements. These revenue sources constitute 2.7% of revenue and have increased \$25 thousand or 3.2% from the prior year. The county appropriation was unchanged at \$500 thousand. The increase is attributable to higher interest rates than we saw in the prior fiscal year.

**Total expense** of \$29.3 million has increased \$1.6 million or 6.0% compared to the prior year. Personnel expense of \$8.3 million is 28.3% of total expense and has increased \$398 thousand or 5.0%. Operating expense of \$20.9 million is 71.1% of total expense and has increased \$1.3 million or 6.7%. The increase in operating expense was a direct result of increases in health care expenses of \$1.2 million or 7.5% over the prior year.

## **BUDGET**

The fiscal 2007 budget saw an increase in Medicaid funding from Summit Pointe as a result of “rebasings” Medicaid costs and encounters. The **General Fund** contract from the Michigan Department of Community Health covered a two (2) year period from 10/1/05 through 9/30/07.

**BERRIEN MENTAL HEALTH AUTHORITY**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2007*

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### **MDCH AUDIT**

On December 5, 2005, MDCH began their audit of fiscal year 2004. Field work was completed April 13, 2006. The total payback proposed is \$16,000. This was related to the way depreciation was calculated on capital purchases. The Authority will recover all of this payback in future years through depreciation expense. While the preliminary results of this audit were known at the end of fiscal 2006, final results were received in January 2008. The audit of the Van Buren Mental Health Authority for fiscal 2002 raised issues that affected all the Venture affiliate members. Results from this audit have been finalized and the Berrien Mental Health Authority will not have a payback to the Department of Mental Health or Venture.

### **FUTURE OUTLOOK**

The state of Michigan is struggling to balance huge budget deficits. Federal deficits are placing additional pressures on Medicaid funding. The effect of these on future funding for community mental health specialty supports and services is unknown, but the outlook does not look favorable.

Management is optimistic that Medicaid revenue will increase in fiscal 2009 as the MDCH has proposed going to a state wide rate. Currently Venture is very low in Medicaid funding rates compared to other PIHP's. Support and service demand is expected to increase together with inflationary cost pressures. While the financial position of BMHA is currently fair, balancing the priorities and budgets will become increasingly more difficult.

In November of 2006, the Authority purchased its second piece of property. This is a residential home located in Royalton Township and is licensed for 12 beds. The decision was made to purchase the 12 bed home due to the extreme shortage of residential beds in the county for the mentally ill adult population.

### **GASB Statement No. 45**

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, was approved by the GASB in June of 2005. Other post-employment benefits are defined as post-employment benefits other than pensions that employees earn during their years of service but that they will not receive until after they stop working. They include all post-employment healthcare benefits and any other type of benefits that are provided separately from a pension plan.

The basic idea of GASB 45 is that other post-employment benefits are earned and should be recognized when the employee provides services, just like wages and compensated absences. Under the County Pension Plan, post retirement health insurance is not considered an "earned benefit." Per section 21.2 of the plan: "The County reserves the right to modify or discontinue health benefits or County subsidies at any time and the right to modify eligibility requirements at any time." For the calendar year 2007, the BMHA contribution to post retirement healthcare

**BERRIEN MENTAL HEALTH AUTHORITY**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2007*

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benefits was 2.02% of payroll. For the calendar year 2008, the BMHA contribution rate will be 2.18% of payroll.

In a letter from the pension plan actuaries, Gabriel Roeder Smith & Company, dated October 30, 2006, the BMHA contribution rate to fund future postretirement healthcare benefits should be 3.65% of payroll for the calendar year 2007. The difference in the rates of 2.02% and 3.65% will result in a shortfall of \$96,148.

The effective date for the Authority to implement this new standard is for the fiscal year ending September 30, 2009.

At present there is not a separate account for the BMHA postretirement health benefits like there is for the pension benefits. The actuaries have not as yet specified what amount is under-funded for the Authority's post retirement healthcare benefit.

\* \* \* \* \*

As always, questions, comments and suggestions are welcomed from interested parties and the general public. These can be directed to management.

**BERRIEN MENTAL HEALTH AUTHORITY**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2007*

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**REFERENCE NOTES**

- (1) Medicaid Reinvestment expense is included in the Expense heading of the Statement of Activities, Page 2.
- (2) Reference to Net Assets section of the Statement of Net Assets, Page 1.
- (3) Reference to Expenditures section of the Statement of Revenues, Expenditures and Changes in Fund Balances, Page 6.
- (4) Reference to schedule of change in Authority's capital assets, Page 20
- (5) Reference to Operating Grants and Contributions revenue, Page 2.
- (6) Reference to Total Current Assets and Total Current Liabilities sections of the Statement of Net Assets, Page 1.
- (7) Reference to Non-current Assets section of the Statement of Net Assets, Page 1.
- (8) Reference to Expenditures section of the Statement of Revenues, Expenditures and Changes in Fund Balances, Page 6. Also reference Summary of Activities - Expense section on the Management's Discussion and Analysis, Page V.
- (9) Reference Liabilities section of the Statement of Net Assets, Page 1.
- (10) Reference Net Assets section of the Statement of Net Assets, Page 1.
- (11) Reference Net Assets section of the Statement of Net Assets, Page 1.
- (12) Summary of Activities on Page V of the Management's Discussion and Analysis  
references the Statement of Activities in the audit report on Page 2. Total Revenue of \$29.951 million references three figures from Page 2: Charges for Services, Operating Grants and Contributions, and General Revenues.
- (13) Reference is to Revenue section of the Summary of Activities on Page V of the  
M D & A and Page 19 of the audit report "**Due to other Governmental Units.**"
- (14) Reference is to Revenue section of the Summary of Activities on Page V of the  
M D & A.



# **BASIC FINANCIAL STATEMENTS - GOVERNMENT-WIDE FINANCIAL STATEMENTS**



Berrien Mental Health Authority  
Statement of Net Assets  
September 30, 2007 and 2006

	Governmental Activities	
	2007	2006
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$4,700,318	\$5,322,845
Accounts receivable, net	394,876	477,471
Due from other governmental units	494,387	76,566
Prepaid items	278,887	163,321
Total current assets	5,868,468	6,040,203
Noncurrent assets		
Cash and cash equivalents - restricted	505,585	500,006
Capital assets - depreciable, net	1,245,042	681,401
Total noncurrent assets	1,750,627	1,181,407
Total assets	7,619,095	7,221,610
<b>Liabilities</b>		
Current liabilities		
Accounts payable	2,385,878	2,301,233
Accrued wages and other payroll liabilities	251,691	248,648
Deferred revenue	-	253,341
Due to other governmental units	261,371	611,100
Notes payable - current portion	92,774	74,504
Total current liabilities	2,991,714	3,488,826
Noncurrent liabilities		
Note payable - long-term portion	463,920	213,790
Compensated absences	368,468	363,375
Total noncurrent liabilities	832,388	577,165
Total liabilities	3,824,102	4,065,991
<b>Net Assets</b>		
Invested in capital assets, net of related debt	688,348	393,107
Restricted for risk management	-	136,631
Unrestricted	3,106,645	2,625,881
Total net assets	\$3,794,993	\$3,155,619

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority  
Statement of Activities  
For The Year Ended September 30, 2007, With Comparative Data

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2006
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$29,311,475</u>	<u>\$23,018,306</u>	<u>\$6,644,101</u>	\$350,932	\$549,984
General revenues					
Unrestricted investment earnings				276,248	241,830
Restricted investment earnings				4,726	2,060
Miscellaneous revenues				<u>7,468</u>	<u>36,338</u>
Total general revenues				288,442	280,228
Change in net assets				639,374	830,212
Net assets - beginning of year				<u>3,155,619</u>	<u>2,325,407</u>
Net assets - end of year				<u>\$3,794,993</u>	<u>\$3,155,619</u>

See Accompanying Notes To Financial Statements

## **FUND FINANCIAL STATEMENTS**



Berrien Mental Health Authority  
Balance Sheet  
Governmental Funds  
September 30, 2007 and 2006

	General Fund	
	2007	2006
<b>Assets</b>		
Cash and cash equivalents	\$4,700,318	\$5,322,845
Accounts receivable, net	394,876	477,471
Due from other funds	137,117	-
Due from other governmental units	494,387	76,566
Prepaid items	278,887	163,321
Cash and cash equivalents - Restricted	368,468	446,907
Total Assets	<u>\$6,374,053</u>	<u>\$6,487,110</u>
<b>Liabilities</b>		
Accounts payable	\$2,385,878	\$2,301,233
Accrued wages and other payroll liabilities	251,691	248,648
Due to other funds	-	83,532
Deferred revenue	-	253,341
Due to other governmental units	261,371	611,100
Total liabilities	<u>2,898,940</u>	<u>3,497,854</u>
<b>Fund balances</b>		
Reserved for prepaid items	278,887	163,321
Reserved for compensated absences	368,468	363,375
Unreserved	2,827,758	2,462,560
Total fund balances	<u>3,475,113</u>	<u>2,989,256</u>
Total liabilities and fund balances	<u>\$6,374,053</u>	<u>\$6,487,110</u>

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority  
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds  
to Net Assets of Governmental Activities on the Statement of Net Assets  
For The Year Ended September 30, 2007

Total fund balance - governmental funds	\$3,475,113
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Amounts reported for governmental activities in the statement of  
net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported in the funds.

Add: capital assets	3,064,360
Deduct: accumulated depreciation	(1,819,318)

Some liabilities are not due and payable in the current period and therefore are  
not reported in the funds. Those liabilities consist of:

Deduct: notes payable	(556,694)
Deduct: compensated absences	<u>(368,468)</u>

Net assets of governmental activities	<u><u>\$3,794,993</u></u>
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See Accompanying Notes To Financial Statements

Berrien Mental Health Authority  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For The Years Ended September 30, 2007 and 2006

	General Fund	
	2007	2006
<b>Revenues</b>		
State grants		
Department of Community Health contract general fund formula and categorical	\$4,820,668	\$5,081,880
Adult Benefit Waiver	573,565	554,422
MI Child Capitation	20,224	23,725
Other State grants	16,697	17,177
Total State grants	<u>5,431,154</u>	<u>5,677,204</u>
 Federal grants	 <u>712,947</u>	 <u>690,206</u>
 Contributions - local units		
County appropriations	<u>500,000</u>	<u>500,000</u>
 Charges for services		
Medicaid - Venture contract	21,868,025	20,404,179
Client and third party pay	861,254	748,834
Other contract revenue	289,027	191,889
Total charges for services	<u>23,018,306</u>	<u>21,344,902</u>
 Interest and rents		
Interest	<u>276,248</u>	<u>241,830</u>
 Other revenue		
United way	1,211	13,139
Miscellaneous	6,257	23,199
Total other revenue	<u>7,468</u>	<u>36,338</u>
 Total revenues	 29,946,123	 28,490,480

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For The Years Ended September 30, 2007 and 2006

	General Fund	
	2007	2006
<b>Expenditures</b>		
Health & Welfare - Mental Health		
Personnel costs	\$8,288,558	\$7,891,066
Operating expenditures	20,851,714	19,519,963
Capital outlay	703,908	79,395
Debt service		
Principal	91,600	77,926
Interest	25,843	16,961
Total expenditures	29,961,623	27,585,311
Excess of revenues over expenditures	(15,500)	905,169
Other financing sources (uses)		
Loan proceeds	360,000	-
Operating transfers in (out) - other funds	141,357	(61,008)
Total other financing sources (uses)	501,357	(61,008)
Excess of revenues and other sources over expenditures and other uses	485,857	844,161
Fund balance, beginning of year	2,989,256	2,145,095
Fund balance, end of year	\$3,475,113	\$2,989,256

See Accompanying Notes To Financial Statements



Berrien Mental Health Authority  
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund  
Balances of Governmental Funds to the Statement of Activities  
For The Year Ended September 30, 2007

Net change in fund balances - total governmental funds	\$485,857
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Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However,  
in the statement of activities, the cost of those assets is allocated over  
their estimated useful lives as depreciation expense.

Add: capital outlay	703,908
Deduct: depreciation expense	(140,267)

An internal service fund is used by management to cover the risk of  
overspending the Managed Care Specialty Services Program contract.  
The net revenue (expense) of this fund is reported within governmental activities.

Add: net revenue (expense) from governmental internal service fund	(136,631)
--	-----------

Payment of principal on long-term debt is an expenditure in the governmental funds,  
but not in the statement of activities (where it reduces long-term debt).

Add: principal payments on long term debt	91,600
Deduct: loan proceeds	(360,000)

Some expenses reported in the statement of activities do not require the use of  
current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in accrual for compensated absences	(5,093)
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Change in net assets of governmental activities	<u><u>\$639,374</u></u>
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See Accompanying Notes To Financial Statements

Berrien Mental Health Authority  
Statement of Net Assets  
Proprietary Funds  
September 30, 2007 and 2006

	<u>Internal Service Funds</u>	
	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Cash and cash equivalents	\$137,117	\$53,099
Due from other funds	<u>-</u>	<u>83,532</u>
Total assets	137,117	136,631
<b>Liabilities</b>		
Due to other funds	<u>137,117</u>	<u>-</u>
<b>Net Assets</b>		
Restricted	<u>-</u>	<u>\$136,631</u>

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For The Years Ended September 30, 2007 and 2006

	<u>Internal Service Funds</u>	
	<u>2007</u>	<u>2006</u>
<b>Non-operating revenues</b>		
Interest income	\$4,726	\$2,060
<b>Operating transfers</b>		
Operating transfers in (out) - other funds	<u>(141,357)</u>	<u>61,008</u>
Change in net assets	(136,631)	63,068
Net assets, beginning of year	<u>136,631</u>	<u>73,563</u>
Net assets, end of year	<u><u>-</u></u>	<u><u>\$136,631</u></u>

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority  
Statement of Cash Flows  
Proprietary Funds  
For The Years Ended September 30, 2007 and 2006

	<u>Internal Service Funds</u>	
	<u>2007</u>	<u>2006</u>
<b>Cash flows from operating activities</b>		
Internal activity - payments to other funds	-	(\$2,124)
Internal activity - payments from other funds	<u>\$79,292</u>	<u>-</u>
Net cash used by operating activities	79,292	(2,124)
<b>Cash flows from investing activities</b>		
Interest revenue	<u>4,726</u>	<u>2,060</u>
Net (decrease) in cash	84,018	(64)
Cash and cash equivalents, beginning of year	<u>53,099</u>	<u>53,163</u>
Cash and cash equivalents, end of year	<u><u>\$137,117</u></u>	<u><u>\$53,099</u></u>
Reconciliation of operating income (loss) to net cash used by operating activities		
Operating transfers	(\$141,357)	\$61,008
Change in assets and liabilities		
Due from / to other funds	<u>220,649</u>	<u>(63,132)</u>
Cash flows from operating activities	<u><u>\$79,292</u></u>	<u><u>(\$2,124)</u></u>

See Accompanying Notes To Financial Statements

## **NOTES TO THE FINANCIAL STATEMENTS**



## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Berrien Mental Health Authority (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

### **Reporting Entity**

The Authority operates as a Community Mental Health Authority under the provisions of Act 258 - Public Acts of 1974, as amended. The Authority provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Berrien County.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

### **Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Berrien Mental Health Authority  
Notes to Financial Statements

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Government-Wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Proprietary Fund Financial Statements - The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Berrien Mental Health Authority  
Notes to Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Authority reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Comparative Data**

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.



Berrien Mental Health Authority  
Notes to Financial Statements

**Budgetary Data**

The Authority adopts an annual budget for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

**Cash and Cash Equivalents**

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

**Restricted Cash Equivalents**

The Authority has charged to the Department of Community Health the vested portion of compensated absences as of September 30. The Authority holds a separate deposit account for payment of the compensated absences liability.

**Receivables and Payables between Funds**

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

**Receivables**

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health.

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Berrien Mental Health Authority  
Notes to Financial Statements

### **Inventories**

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

### **Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year on construction of capital assets.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements and proprietary fund financial statements.

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

<b>Assets</b>	<b>Years</b>
Land	N/A
Buildings and Improvements	15 - 25
Furniture, Fixtures and Equipment	5
Vehicles	4
Capital Lease Obligations	3

### **Inpatient / Residential Cost Liability**

The amount recorded for inpatient / residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Authority. This liability is included in accounts payable and due to other governmental units.

### **Deferred Revenue**

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

### **Governmental Fund – Fund Balance Reserves and Designations**

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for Medicaid Savings and compensated absences are examples of the latter.

### **MDCH Revenue**

#### *General Fund Revenue*

The Authority provides mental health services on behalf of the Michigan Department of Community Health (MDCH). Currently, the Authority contracts directly with the MDCH for General Fund revenues to support the services provided for priority population residing in Berrien County.

#### *Medicaid Revenue*

Also, the Authority contracts to receive Medicaid revenue through the Summit Pointe for Medicaid-qualified services rendered to residents of Berrien County. Summit Pointe contracts with the MDCH to administer these Medicaid funds.

Berrien Mental Health Authority  
Notes to Financial Statements

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

**Excess of Expenditures over Appropriations**

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2007, the Authority incurred expenditures in excess of the amounts appropriated as shown at the back of this report.

**NOTE 3 - DETAIL NOTES**

**Cash and Cash Equivalents**

At September 30, the carrying amount of the Authority's cash and cash equivalents was as follows:

	<b>2007</b>	<b>2006</b>
Petty cash	\$675	\$675
Cash and cash equivalents	4,699,643	5,322,170
Cash and cash equivalents - restricted	505,585	500,006
<b>Totals</b>	<b>\$5,205,903</b>	<b>\$5,822,851</b>

Berrien Mental Health Authority  
Notes to Financial Statements

*Custodial Credit Risk – Deposits*

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. At September 30, 2007, the carrying amount of the Authority's deposits was \$5,205,228, and the bank balance was \$7,122,723. Of the bank balance, \$100,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

A reconciliation of deposits as shown above follows:

	<b>2007</b>	<b>2006</b>
Cash and cash equivalents – current assets	\$4,699,643	\$5,322,170
Cash and cash equivalents – restricted assets	505,585	500,006
<b>Totals</b>	<b>\$5,205,228</b>	<b>\$5,822,176</b>

*Investments*

State statutes authorize the Authority to invest in obligations and certain repurchase agreements of the United State Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. As of September 30, 2007, the Authority had no such investments.

The Authority's investment policy complies with the State statutes and has no additional investment policies that would limit its investment choices.

*Interest Rate Risk – Investments*

Under State statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Authority's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Berrien Mental Health Authority  
Notes to Financial Statements

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments that are in the possession of an outside party. The Authority requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts. The Authority does not have any additional policies for custodial credit risk over investments.

Credit Risk

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks. The Authority's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer.

**Due from Other Governmental Units**

Due from other governmental units as of September 30, consists of the following:

	<b>2007</b>	<b>2006</b>
Department of Community Health – OBRA	\$65,581	\$61,818
Department of Community Health – PATH Grant	19,674	-
Department of Community Health – Child Consultation	-	12,046
Summit Pointe	409,132	2,702
<b>Totals</b>	<b>\$494,387</b>	<b>\$76,566</b>

Berrien Mental Health Authority  
Notes to Financial Statements

### Changes in Capital Assets

A summary of changes in the Authority's capital assets is as follows:

<b>Assets</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Land	\$38,000	\$90,000	-	\$128,000
Buildings and Improvements	195,728	534,961	-	730,689
Furniture, Fixtures and Equipment	1,911,556	28,641	-	1,940,197
Vehicles	125,081	35,027	-	160,108
Capital Lease Obligations	90,087	15,279	-	105,366
Sub-totals	2,360,452	703,908	-	3,064,360
<b>Accumulated Depreciation</b>				
Buildings and Improvements	(11,725)	(22,863)	-	(34,588)
Furniture, Fixtures and Equipment	(1,487,403)	(91,156)	-	(1,578,559)
Vehicles	(89,836)	(23,702)	-	(113,538)
Capital Lease Obligations	(90,087)	(2,546)	-	(92,633)
Sub-totals	(1,679,051)	(140,267)	-	(1,819,318)
<b>Totals</b>	<b>\$681,401</b>	<b>\$563,641</b>	<b>-</b>	<b>\$1,245,042</b>

Depreciation expense was charged to the Health & Welfare – Mental Health Program.

### Due to Other Governmental Units

As of September 30, this liability consists of the following:

	<b>2007</b>	<b>2006</b>
State of Michigan – State Inpatient/Residential Care	\$261,371	\$277,196
Summit Pointe – Medicaid Cost Settlement	-	333,904
<b>Totals</b>	<b>\$261,371</b>	<b>\$611,100</b>

### **Accrued Wages and Other Payroll Liabilities**

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

### **Deferred Revenue**

The amount reported as deferred revenue includes the carry forward allowance for the general fund portion of the Department of Community Health's authorization.

### **Long Term Liabilities – Compensated Absences**

Authority policy allows full time employees to accumulate vacation time at various rates, depending on the employee's length of service with the Authority. As of September 30, 2007 and 2006, this liability was \$368,468 and \$363,375, respectively.

### **Long –Term Liabilities – Loans**

#### *Vehicle Lease*

During the 2004 fiscal year, the Authority entered into two loan agreements for the purchase of two vehicles. Payments are due monthly in the amount of \$1,106, including interest at the rate of 6.49% per annum. As of September 30, 2007 and 2006, the balance of these loans was \$6,459 and \$19,914, respectively.

#### *Telephone System Loan*

During the 2004 fiscal year, the Authority entered into a loan agreement for the purchase of a telephone system. Payments are due monthly in the amount of \$5,165, including interest at the rate of 2.99% per annum. As of September 30, 2007 and 2006, the balance of this loan was \$70,934 and \$126,420, respectively.

#### *Real Estate Loan*

During the 2005 fiscal year, the Authority entered into a loan agreement for the purchase of real estate. Payments are due monthly in the amount of \$1,111, including interest at a rate of 3.83% per annum. As of September 30, 2007 and 2006, the balance of this loan was \$132,475 and \$141,960, respectively.



Berrien Mental Health Authority  
Notes to Financial Statements

During the 2007 fiscal year, the Authority entered into a loan agreement for the purchase of real estate. Payments are due monthly in the amount of \$2,860, including interest at a rate of 4.99% per annum. As of September 30, 2007 and 2006, the balance of this loan was \$346,826 and \$0, respectively.

The annual installments to pay principal and interest on obligations outstanding at September 30, 2007 are as follows, including total interest payments of \$175,943

Year Ended September 30,	Amount
2008	\$117,377
2009	57,661
2010	47,657
2011	47,657
2012	47,657
2013-2017	238,285
2018-2022	176,343

During the year, the following changes occurred in long-term liabilities:

Liability	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated Absences	\$363,375	\$5,093	-	\$368,468	-
Vehicle Loans	19,914	-	\$13,455	6,459	\$6,460
Telephone System Loan	126,420	-	55,486	70,934	60,694
Real Estate Loans	141,960	360,000	22,659	479,301	25,620
<b>Totals</b>	<b>\$651,669</b>	<b>\$365,093</b>	<b>\$91,600</b>	<b>\$925,162</b>	<b>\$92,774</b>

### Operating Leases

The Authority has entered into various operating leases for the use of real property and vehicles. Operating leases do not give rise to property rights or lease obligations, and therefore, are not capitalized.

Berrien Mental Health Authority  
Notes to Financial Statements

The following is a schedule of future minimum rental payments required under the operating leases that have initial or remaining noncancelable lease terms as of September 30, 2007:

<b>YEAR ENDING SEPTEMBER 30,</b>	<b>AMOUNT</b>
2008	\$474,196
2009	255,310
2010	214,670
2011	214,670
2012	161,003
2013-2017	-

### **Retirement Systems**

#### **401(a) Money Purchase Plan**

##### Plan Description

Effective January 1, 1998, the Authority was registered as a new governmental entity due to Authority Status. Accordingly, the employees of the Authority voted to join a 401(a) Money Purchase Plan instead of participating in the Social Security system.

##### Funding Policy

Full time employees contribute a mandatory 6.2% of their wages to this plan. Employer contributions for the years ended September 30, 2007 and 2006 were 4.9% of employee wages.

Employees of the Authority not eligible to participate in this plan are covered by the Social Security system.

Berrien Mental Health Authority  
Notes to Financial Statements

## **Pension Plan**

### Plan Description

Substantially all employees of the Authority are covered by the Berrien County Employees Amended Retirement Plan (the "Plan"). The Plan provides retirement, disability and death benefits to members and their beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to Gabriel, Roeder, Smith & Company, One Towne Square, Suite 800, Southfield, Michigan 48076.

The most recent period for which actuarial data was available was for the year ended December 31, 2006. The Authority's payroll for employees covered by the Plan for the 2006 and 2005 years was \$6,031,877 and \$5,523,055, respectively.

### Funding Policy

All Authority employees who work more than 1,000 hours per year are eligible to participate in the plan. Members who retire at or after age 60 with 5 years of service are entitled to a retirement benefit, payable monthly for life, equal to 1.7% of their final 5-year average earnings, as defined, for each year of credited service.

Vested employees may retire on or after age 55 with 5 years of service, or after 25 years of service regardless of age, and receive reduced retirement benefits. The plan also provides death and disability benefits.

Covered employees are required to contribute 4.5% of their salary to the plan. The Authority contributes a percentage of payroll calculated and recommended each year by the plan's actuary. For the years ended September 30, 2007 and 2006, the Authority contributed \$119,314 and \$97,762, respectively, to this retirement plan.

The actuarial accrued liability at December 31, 2006 (the date of the most recent available information) for the plan as a whole, determined through an actuarial valuation performed as of that date, was \$131.1 million. The plan's valuation assets at December 31, 2006 were \$124.2 million resulting in funding below actuarial accrued liability of \$6.9 million. Valuation assets, determined by the actuary, are equal to reported fair value assets, adjusted for amortization of actuarial gains and losses.

Berrien Mental Health Authority  
Notes to Financial Statements

For Berrien Mental Health Authority, the actuarial accrued liability at December 31, 2006, determined through an actuarial valuation performed as of that date, was \$11.1 million. The plan's valuation assets allocated to the Authority at December 31, 2006 were \$15.1 million resulting in funding in excess of the actuarial accrued liability of \$4.0 million.

Historical trend information showing the plan's progress in accumulating sufficient assets to pay benefits when due, and other information regarding the plan, is presented in the financial statements of the County of Berrien, Michigan for the year ended December 31, 2006.

In addition to pension benefits, employees of the Authority who retire under provisions of the plan may elect to continue their hospitalization and health care insurance coverage, provided they pay fifty percent of the actual cost of premiums.

### **Compliance Audits**

The Authority participates in various federal, state, and local grants for mental health and substance abuse programs. Certain provisions and allowable levels of participation and expenditures not qualifying for participation are subject to interpretation and adjustment by appropriate governmental agencies. State grants are subject to audit by responsible state agencies. Although these audits may result in some changes, they are not expected to have a material effect on the financial statements.

### **Risk Management**

#### Michigan Municipal Risk Management Authority

The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all losses, including damages, loss adjustment expenses and defense costs, for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds MMRMA's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason, the MMRMA's resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

Berrien Mental Health Authority  
Notes to Financial Statements

The Authority's coverage limits are \$15,000,000 for liability, \$1,500,000 for vehicle physical damage, and between \$10,000 and \$300,000,000 for property and crime. The premium charged to the Authority by MMRMA was \$115,858 for the period July 1, 2007 to July 1, 2008.

**Risk Management – Internal Service Fund**

During the September 30, 1999 fiscal year, the Authority authorized the establishment of an Internal Service Fund. This fund is used to cover the risk of overspending the Managed Care Specialty Services Program (MCSSP) contract. This contract provides for the use of Department of Community Health funding for the establishment of an Internal Service Fund, which is restricted to meet the expected future risk corridor requirements of the contract. Expenditures from the Internal Service Fund will occur when, in any one fiscal year, the Authority finds it necessary to expend more to provide services necessary to carry out the MCSSP contract requirements than revenue provided to the Authority by the contract.

During the 2007 fiscal year, the net assets of this internal service fund were transferred to the general fund.

**Commitments and Contingencies**

Berrien Mental Health Authority has received a preliminary report for the MDCH compliance audit for the 2004 fiscal year. Results of this compliance audit are not expected to have a material effect on these financial statements.

Berrien Mental Health Authority  
Notes to Financial Statements

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## REQUIRED SUPPLEMENTAL INFORMATION



Berrien Mental Health Authority  
Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual  
General Fund  
For The Year Ended September 30, 2007

	Budgeted Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
<b>Revenues</b>				
State grants				
Department of Community Health contract general fund formula and categorical	\$5,078,744	\$4,822,959	\$4,820,668	(\$2,291)
Adult Benefit Waiver	627,819	605,493	573,565	(31,928)
MI Child Capitation	-	-	20,224	20,224
Other State grants	-	-	16,697	16,697
Total State grants	<u>5,706,563</u>	<u>5,428,452</u>	<u>5,431,154</u>	<u>2,702</u>
Federal grants	<u>677,591</u>	<u>678,141</u>	<u>712,947</u>	<u>34,806</u>
Contributions - local units				
County appropriations	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>-</u>
Charges for services				
Medicaid - Venture contract	19,872,489	21,462,792	21,868,025	405,233
Client and third party pay	1,003,874	629,385	861,254	231,869
Other contract revenue	256,649	347,031	289,027	(58,004)
Total charges for services	<u>21,133,012</u>	<u>22,439,208</u>	<u>23,018,306</u>	<u>579,098</u>
Interest and rents				
Interest	<u>207,000</u>	<u>248,858</u>	<u>276,248</u>	<u>27,390</u>
Other revenue				
United way	-	-	1,211	1,211
Miscellaneous	18,148	21,290	6,257	(15,033)
Total other revenue	<u>18,148</u>	<u>21,290</u>	<u>7,468</u>	<u>(13,822)</u>
Total revenues	28,242,314	29,315,949	29,946,123	630,174

See Accompanying Notes To Financial Statements



Berrien Mental Health Authority  
Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual  
General Fund  
For The Year Ended September 30, 2007

	<u>Budgeted Amounts</u>			Variance Between Actual and Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Expenditures</b>				
Health & Welfare - Mental Health				
Personnel costs	\$8,586,962	\$8,337,841	\$8,288,558	\$49,283
Operating expenditures	19,174,819	20,766,037	20,851,714	(85,677)
Capital outlay	-	-	703,908	(703,908)
Debt service	-	79,288	117,443	(38,155)
	<u>27,761,781</u>	<u>29,183,166</u>	<u>29,961,623</u>	<u>(778,457)</u>
Total expenditures				
Excess of revenues over (under) expenditures	480,533	132,783	(15,500)	(148,283)
Other financing sources (uses)				
Loan proceeds	-	-	360,000	360,000
Operating transfers in - other funds	-	140,487	141,357	870
	<u>-</u>	<u>140,487</u>	<u>501,357</u>	<u>360,870</u>
Total other financing sources				
Excess of revenues and other sources over expenditures and other uses	480,533	273,270	485,857	212,587
Fund balance, beginning of year	<u>2,989,256</u>	<u>2,989,256</u>	<u>2,989,256</u>	<u>-</u>
Fund balance, end of year	<u>\$3,469,789</u>	<u>\$3,262,526</u>	<u>\$3,475,113</u>	<u>\$212,587</u>

See Accompanying Notes To Financial Statements

## OTHER SUPPLEMENTAL INFORMATION



Berrien Mental Health Authority  
Supporting Schedule of Personnel Costs  
For The Years Ending September 30, 2007 and 2006

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Governmental Fund Types

General Fund

	<u>2007</u>	<u>2006</u>
<b>Personnel costs</b>		
Salaries and wages	\$6,405,038	\$6,108,537
Fringe benefits	<u>1,883,520</u>	<u>1,782,529</u>
Total personnel costs	<u><u>\$8,288,558</u></u>	<u><u>\$7,891,066</u></u>

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority  
Supporting Schedule of Operating Expenditures  
For The Years Ending September 30, 2007 and 2006

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Governmental Fund Types

General Fund

	<u>2007</u>	<u>2006</u>
<b>Operating expenditures</b>		
Communications	\$156,885	\$68,680
Contractual services	1,579,790	1,346,450
Grant expense	161,355	153,144
Health care expenses	16,521,882	15,373,378
Insurance	119,397	141,762
Legal and accounting	75,332	80,241
Local funds contribution	384,500	384,498
Rents	506,341	507,085
Repairs and maintenance	325,192	325,129
Staff development	200,166	149,773
Supplies and other	501,905	643,821
Travel	189,455	198,319
Utilities	91,194	102,353
Venture services	<u>38,320</u>	<u>45,330</u>
 Total operating expenditures	 <u><u>\$20,851,714</u></u>	 <u><u>\$19,519,963</u></u>

See Accompanying Notes To Financial Statements



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Berrien Mental Health Authority  
Benton Harbor, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Berrien Mental Health Authority (the Authority) as of and for the year ended September 30, 2007, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated March 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiency described as 2007-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above as 2007-1, is not a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated March 10, 2008.

Berrien Mental Health Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Roslund, Prestage & Co, PC".

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

March 10, 2008

## **Berrien Mental Health Authority Schedule of Findings and Responses**

### **Finding 2007-1**

#### Finding considered a significant deficiency

Effective for the year ended September 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

The annual financial statements for the year ended September 30, 2007, required relatively few audit adjustments, most of which the staff were aware needed to be recorded. The staff of the Authority does understand all information included in the annual financial statements; however, we assist in preparing the footnotes to the annual financial statements. We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

#### Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.



**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors  
Berrien Mental Health Authority  
Benton Harbor, Michigan

**Compliance**

We have audited the compliance of Berrien Mental Health Authority (the Authority) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.



## Internal Control over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Roslund, Prestage & Company, P.C.  
Certified Public Accountants

March 10, 2008

BERRIEN MENTAL HEALTH AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Grant / Project Number	Approved Grant Award Amount	Current Year Expenditures	Federal Revenue Recognized	Financial Statement Page
<b>Department Of Health And Human Services</b>						
Passed Through The Michigan Department of Community Health Child Care and Development Block Grant	93.575	0601MICCDF	62,390	<u>\$62,390</u>	<u>\$62,390</u>	
<b>Department Of Health And Human Services</b>						
Passed Through The Michigan Department of Community Health Projects for Assistance in Transition from Homelessness	93.150 93.150	SMX060023K 20070509	89,000 26,500	<u>79,975</u> <u>26,500</u>	<u>79,975</u> <u>26,500</u>	
				<u>106,475</u>	<u>106,475</u>	
<b>Department Of Health And Human Services</b>						
Passed Through The Berrien County Health Department Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	SM57447-02-2	285,011	<u>168,371</u>	<u>168,371</u>	
<b>Department Of Health And Human Services</b>						
Passed Through The Michigan Department of Community Health Medical Assistance Program	93.778	n/a	n/a	<u>375,711</u>	<u>375,711</u>	
<b>Grand Totals</b>				<u><u>\$712,947</u></u>	<u><u>\$712,947</u></u>	5

See Accompanying Notes To Financial Statements

BERRIEN MENTAL HEALTH AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
SEPTEMBER 30, 2007

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**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Berrien Mental Health Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- Medical Assistance Program, CFDA # 93.778 was audited as a major program and represents 53% of federal program expenditures.
- The threshold for distinguishing Type A and B programs was \$300,000.
- Expenditures on this schedule reconcile with amounts reported in the financial statements and financial reports submitted to the Michigan Department of Community Health.

**NOTE 3 – RECONCILIATION OF FEDERAL REVENUE**

The current year expenditures on the schedule of expenditures of federal awards agree to the federal revenue reported in the financial statements.

BERRIEN MENTAL HEALTH AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COST  
YEAR ENDED SEPTEMBER 30, 2007

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**SUMMARY OF AUDITOR'S RESULTS**

FINANCIAL STATEMENTS

Type of auditor's opinion issues:	Unqualified
Internal control over financial reporting:	
▪ Material weaknesses identified?	None
▪ Reportable conditions identified that are not considered to be material weaknesses?	None
Noncompliance material to financial statements noted?	None

FEDERAL AWARDS

Internal control over major program:	
▪ Material weaknesses identified?	None
▪ Reportable conditions identified that are not considered to be material weaknesses?	None

Type of auditor's report issued on compliance for major programs:	Unqualified
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Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No
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Dollar threshold used to distinguish between type A and type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	No
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Identification of major programs:

CFDA #93.778 – Medical Assistance Program

**FINANCIAL STATEMENT FINDINGS**

None.

**FEDERAL AWARD FINDINGS AND QUESTIONED COST**

None.



## MANAGEMENT LETTER

Board of Directors  
Berrien Mental Health Authority  
Benton Harbor, Michigan

In planning and performing our audit of the financial statements for Berrien Mental Health Authority for the fiscal year ended September 30, 2007, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated March 10, 2008, on the financial statements of Berrien Mental Health Authority.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

A handwritten signature in black ink that reads 'Roslund, Prestage &amp; Co, PC'. The signature is written in a cursive, flowing style.

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

March 10, 2008

## **STATUS OF PRIOR YEAR RECOMMENDATIONS**

During the audit we were pleased to note that the recommendations identified in the management letter from the prior year had been implemented. We commend you on your efforts to strengthen internal controls and operating efficiencies.

## **CURRENT YEAR COMMENTS AND RECOMMENDATIONS**

### **Payroll**

During our audit we encountered several items relating to payroll calculation and documentation. Calculation sheets are used by the Authority to determine the rate of pay for employees based on the number of hours the employee is to work each week. In some instances, hours worked per the rate calculation sheets were incorrect. In other instances, the rate calculations themselves were incorrect.

We recommend that once the calculation sheet is completed, the Authority have the respective employee, prior to employment or prior to changes in hours or pay rate, review the sheet and sign their name indicating agreement with the rate calculation and corresponding hours expected to work. Also, we recommend that when management signs these calculation sheets, a thorough review of the rate calculation and the hours stated on the form be done to ensure that they are correct and in agreement with one another. This will help to ensure that documentation in the payroll file is accurate and in will help to avoid possible misunderstanding of the expectations of employees of the Authority.

Because the procedures to process payroll involve two separate departments of the Authority (Human Resources and Finance), it is imperative that both Departments work together to ensure all employees of the Authority are paid at the correct rates and for the correct number of hours worked.

### **Have Management Review and Approve Adjusting Journal Entries**

During our audit we noted that adjusting journal entries are completed by accounting personnel, but are not formally approved by an individual who is independent of this process. Management has represented to us that this approval process is occurring, but not being documented in writing. We therefore recommend that when the adjusting journal entries and supporting documentation is being reviewed by an independent individual, this review be documented. Once the review is completed, the adjusting journal entry should be initialed by the reviewer as evidence that the review had taken place.

Statement on Auditing Standards (SAS) Numbers 104-111

During the 2006 year, the AICPA's Auditing Standards Board (ASB) issued eight new statements on auditing standards relating to the assessment of risk in a financial statement audit. These statements will be effective for the September 30, 2008 audit of the Authority and their objective is to enhance auditor's application of the audit risk model in their approach to the audit. These statements provide additional guidance on the planning and supervision of the audit, the nature of audit evidence, and determining whether the audit evidence obtained provides a reasonable basis for an opinion on the financial statements. Specifically, these standards require the auditor to:

- Obtain a more in-depth understanding of the entity and its environment, including internal controls, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate those risks.
- Acquire a more thorough assessment of the risks of material misstatement of the financial statements based on that understanding.
- Apply the understanding of assessed risks to the audit; specifically creating a link between the assessed risk and the nature, timing, and extent of audit procedures performed.

With the implementation of these new standards, our approach to the audit of the Authority for the 2008 fiscal year will bring about new audit processes and may require us to obtain additional audit evidence beyond what we have obtained in the past as it relates to understanding the Authority and its environment. We would be happy to discuss these new standards with you in more detail at any time and encourage you to review your internal control structure over the next year in anticipation of these changes.